

NEW NORTH RESOURCES LTD.



**1997
ANNUAL REPORT**

Annual General Meeting of Shareholders

The Annual General Meeting of Shareholders of New North Resources Ltd. will be held in the Sun Life Plaza Conference Centre, at 210, 140 - 4th Avenue S.W., Calgary, Alberta on Tuesday, the 2nd day of June, 1998 at 10:00 a.m. (local time).

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Abbreviations

BBL -	barrels
BOPD -	barrels of oil per day
MCF -	thousand cubic feet
MCF/D -	thousand cubic feet per day
NGL -	natural gas liquids

All sums of money are expressed in Canadian dollars.

CORPORATE PROFILE

New North Resources Ltd. is a Calgary based junior oil and natural gas corporation, engaged in the acquisition, exploration, development and production of medium to light gravity crude oil and natural gas reserves in Alberta.

New North was incorporated pursuant to the Alberta Business Corporations Act on May 9, 1994. The Corporation successfully completed a prospectus offering of shares pursuant to Alberta Securities Commission Policy 4.11 as a Junior Capital Pool company in September of 1994 and commenced trading its common shares on The Alberta Stock Exchange on October 4, 1994. New North closed its major transaction on April 17, 1996 after the shareholders authorized the acquisition by the corporation of certain producing and prospective oil and gas properties located in Alberta. On April 29, 1996, New North commenced trading on The Alberta Stock Exchange as a fully qualified junior oil and gas company.

The Company's primary corporate objective is to achieve growth and enhance shareholder value through timely acquisitions and prudent financial management.

CORPORATE HIGHLIGHTS

Financial (\$)	<u>1997</u>	<u>1996</u>
Gross Production Revenue	\$ 204,367	\$ 204,203
Cash Flow From Operations	156,150	132,394
Per share	0.03	0.03
Net Earnings	113,042	94,047
Per Share	0.02	0.02
Capital Expenditures	72,722	489,119
Bank Debt	73,440	210,000
Shareholders' Equity	441,251	301,209

Operations

Production (Sales)			
Oil and NGL	Total (BBL)	6,295	6,549
	Per Day (BOPD)	17	18
	Average Price (Cdn. \$)	\$ 25.80	\$ 25.99
Natural Gas	Total (MCF)	32,788	32,307
	Per Day (MCF/D)	90	88
	Average Price (Cdn. \$)	\$ 2.15	\$ 1.73

Common Shares

Shares traded	440,400	930,500
Value traded (\$)	113,940	173,548
Share Price (\$)		
High	.41	.30
Low	.12	.14
Close	.12	.23
Number of Shares Outstanding at Year End	4,740,000	4,470,000

REPORT TO THE SHAREHOLDERS

The oil and gas industry in Alberta thrived during 1997 with steady oil prices, higher natural gas prices, low interest rates and a very high level of drilling activity. As a result of such favorable conditions, bidding for Alberta Crown lands produced heightened sales activity and prices compared to those of recent years. However, as a consequence of such a positive environment, junior resource companies experienced difficulty competing in the bidding arena. With the recent drop in oil prices, the Company anticipates lower land prices and more opportunities for junior resource companies.

New North's existing oil production decreased only slightly from that of last year and natural gas production remained constant. Improved natural gas prices for 1997 offset the slightly decreased oil production so that gross production revenue for the year remained consistent with 1996 figures.

During the year, through prudent management, the Company was able to reduce its bank loan by \$136,560 to a balance of \$73,440 at year-end while still providing capital required for a number of modestly bid land acquisitions occurring over the course of the year, the details of which are outlined more completely in the Report on Operations.

Over the course of the year, two corporate officers exercised their options to acquire 270,000 shares in the capital stock of the Company at an exercise price of \$0.10 per share, resulting in a \$27,000 payment to New North.

On December 15, 1997, Michael H. Smith was appointed Vice President, Exploration of New North Resources Ltd. Mr. Smith brings over 30 years of exploration experience in the oil and gas industry with both major and junior oil and gas companies and we welcome him to our management team. At this time, I would also like to extend my appreciation to the directors, officers and management team for their efforts over the past year.

New North continues its commitment to enhancing shareholder value through quality land acquisitions, a low risk exploitation strategy and diligent control of all costs.

On behalf of the Board of Directors,

A handwritten signature in dark ink, appearing to read 'T. Hall', with a large, stylized loop at the beginning.

Thomas J. (Jack) Hall
President and Chairman of the Board

April 21, 1998

REPORT ON OPERATIONS

Swan Hills South

New North owns a 54% working interest in 320 acres in the Swan Hills area of central Alberta where it operates a producing oil well and single well battery at 12-35-65-10 W5M. During 1997, the well produced 7,570 gross barrels of oil (4,088 net), averaging 20.7 barrels per day (11.2 net) at \$27.14 per barrel (\$21.66 per barrel after royalties). Production costs averaged \$5.88 per barrel for a net back of \$15.78 per barrel for the year.

Sundre

New North owns working interests varying from 6.09% to 16.25% in two sections of land in the Sundre gas pool of southern Alberta. The 2-22 and 14-15-34-5 W5M wells are currently producing gas from the Caroline Basal Mannville MU #3 pool, which gas is processed at the Altana gas plant and contracted to spot gas sales. The wells produced 32,788 mcf of gas (net) and 2,182 barrels of NGL (net) during 1997 for total revenue net of royalties of \$88,072. Production costs totaled \$21,625 for a net operating income of \$66,447 from the Sundre property.

Inland

During 1997, New North conducted abandonment and reclamation procedures on an operated well located at 10-19-50-15 W4M in which the company owns a 50% working interest. Also abandoned during the latter part of the year was the 12-31-49-15 W4M well in which New North holds a 6.25% working interest. Abandonment costs for these two wells were more than offset by a one-time payment of \$19,600 for transporting third party natural gas through a Company owned pipeline in the area.

Other Areas

During the early part of 1997, a farmout well was drilled on a one-section parcel of land in the Enchant area of southern Alberta at no cost to the Company. The target formation was encountered with one meter of oil above water. The well was deemed to be uneconomic and was abandoned.

New North acquired a 50% interest in one section of land in the Taber North area of southern Alberta over which seismic operations were completed by a third party. Just subsequent to year-end, a farmout well was drilled and abandoned at no cost to New North.

The Company will continue to evaluate these properties and its other lands in these areas for possible further drilling by industry third parties.

New Prospects

During 1997, the Company acquired a 50% interest in three non-producing Alberta Crown petroleum and natural gas leases comprising two and three-quarter sections of land in the Byemoor area. Seismic programs were conducted over these lands during the year at no cost to New North. Subsequent to year-end, the Company, as operator, together with a partner, drilled a Glauconite sand test. The well encountered tight sand and was abandoned. The Company will continue to evaluate this prospect and other prospects on these lands with the intent to negotiate a third party farmout.

New North also acquired a 50% interest in the rights below the base of the Viking zone in one section of land located in the Ferrier area of Alberta during the year. In addition, the Company acquired a 50% interest in an existing wellbore located on the lands. The Company continues to negotiate with industry third parties to re-enter this well to complete one or more of the deep zones.

MANAGEMENT REPORT

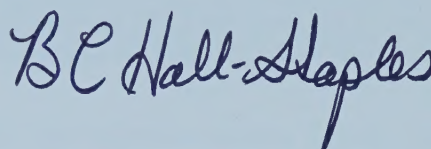
Management is responsible for the preparation of the financial statements and for the consistency therewith of all other financial and operating data presented in this annual report.

The Company maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely information.

External auditors, appointed by the shareholders, have examined the financial statements. The Audit Committee, consisting of a majority of non-management directors, has reviewed these statements with management and the auditors and has reported to the Board of Directors. The Board has approved the financial statements.



Thomas J. (Jack) Hall
President and
Chief Executive Officer



Bonnie C. Hall-Staples
Secretary-Treasurer and
Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of New North Resources Ltd. as at December 31, 1997 and 1996 and the statements of earnings and retained earnings (deficit) and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG

Chartered Accountants

Calgary, Canada
March 21, 1998

NEW NORTH RESOURCES LTD.

Balance Sheets

December 31, 1997 and 1996

	1997	1996
Assets		
Current assets:		
Accounts receivable	\$ 36,829	\$ 81,577
Property, plant and equipment:		
Petroleum and natural gas properties	686,373	613,651
Less accumulated depletion and depreciation	(193,987)	(150,879)
	492,386	462,772
	<u>\$ 529,215</u>	<u>\$ 544,349</u>

Liabilities and Shareholders' Equity

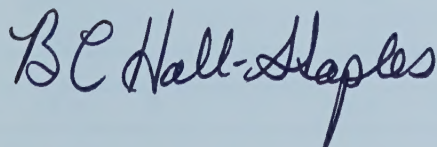
Current liabilities:		
Bank loan (note 2)	\$ 73,440	\$ 210,000
Accounts payable and accrued liabilities	14,524	33,140
	87,964	243,140
Shareholders' equity:		
Common shares (note 3)	348,496	321,496
Retained earnings (deficit)	92,755	(20,287)
	441,251	301,209
	<u>\$ 529,215</u>	<u>\$ 544,349</u>

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

NEW NORTH RESOURCES LTD.

Statements of Earnings and Retained Earnings (Deficit)

Years ended December 31, 1997 and 1996

	1997	1996
Revenue:		
Petroleum and natural gas	\$ 233,229	\$ 226,198
Royalties	(55,473)	(50,645)
<u>Alberta Royalty Credit</u>	26,611	28,650
	204,367	204,203
Other income	24,013	3,339
	228,380	207,542
Expenses:		
Operating	47,611	38,653
Interest	6,801	20,540
General and administrative	17,818	15,955
<u>Depletion and depreciation</u>	43,108	38,347
	115,338	113,495
Earnings	113,042	94,047
<u>Deficit, beginning of year</u>	(20,287)	(114,334)
Retained earnings, end of year	\$ 92,755	\$ (20,287)
Earnings per share	\$ 0.02	\$ 0.02

See accompanying notes to financial statements.

NEW NORTH RESOURCES LTD.

Statements of Changes in Financial Position

Years ended December 31, 1997 and 1996

	1997	1996
Cash provided by (used in):		
Operations:		
Earnings	\$ 113,042	\$ 94,047
Items not involving cash:		
<u>Depletion and depreciation</u>	43,108	38,347
Cash flow	156,150	132,394
<u>Change in non-cash working capital</u>	26,132	(53,739)
	182,282	78,655
Financing:		
Increase in bank loan	-	280,000
Repayment of bank loan	(136,560)	(70,000)
<u>Share issue</u>	27,000	27,000
	(109,560)	237,000
Investments:		
Acquisition of property, plant and equipment	-	(443,700)
<u>Additions to property, plant and equipment</u>	(72,722)	(45,419)
	(72,722)	(489,119)
Increase (decrease) in cash	-	(173,464)
Cash, beginning of year	-	173,464
Cash, end of year	\$ -	\$ -
Cash flow per share	\$ 0.03	\$ 0.03

See accompanying notes to financial statements.

NEW NORTH RESOURCES LTD.

Notes to Financial Statements

Years ended December 31, 1997 and 1996

New North Resources Ltd. (the "Company") was incorporated on May 9, 1994 and commenced operations in September, 1994. The Company is engaged in the acquisition, exploration, development and production of petroleum and natural gas resources in Alberta.

1. Significant accounting policies:

(a) Joint interest operations:

A significant portion of the Company's petroleum and natural gas acquisition, exploration, development and production activities are conducted with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

(b) Petroleum and natural gas operations:

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Such costs include lease acquisition, geological and geophysical, lease rentals on non-producing properties, costs of drilling both productive and non-productive wells, plant and production equipment costs and overhead charges directly related to acquisition, exploration and development activities.

All costs of exploring for and developing petroleum and natural gas reserves, together with the costs of production equipment, are depleted and depreciated by the unit of production method based on estimated gross proven reserves. Natural gas sales and reserves are converted to equivalent units of petroleum using their relative energy content.

Costs of unproved properties are initially excluded from petroleum and natural gas properties for the purpose of calculating depletion. These unproved properties are assessed periodically to ascertain whether impairment has occurred. When proven reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

The total capitalized costs, less accumulated depletion and depreciation, future site restoration and deferred income taxes, are limited to an amount equal to the estimated future net revenue from production of proven reserves, plus the cost of unproved properties (net of impairments), less estimated costs for future administrative overhead, financing, future site restoration and taxes.

(c) Future site restoration costs:

Estimated future site restoration costs are provided for using the unit-of-production method based on estimated gross proven reserves. Costs are based on the Company's engineering estimates considering current regulations, costs, technology and industry standards. Actual expenditures incurred are applied against deferred future site restoration costs.

(d) Deferred income taxes:

The Company follows the deferral method of accounting for income taxes.

2. Bank loan:

The Company has a revolving demand credit facility in the amount of \$300,000 with a Canadian chartered bank which bears interest at the bank's prime rate. The facility is guaranteed by a corporation controlled by an officer of the Company. Although the facility is of a demand nature, principal repayments are being made as funds become available.

NEW NORTH RESOURCES LTD.

Notes to Financial Statements

Years ended December 31, 1997 and 1996

3. Share Capital:

(a) Authorized:

The Company is authorized to issue an unlimited number of common shares without nominal or par value.

(b) Issued:

	Number	Amount
Balance, January 1, 1996	4,200,000	\$ 294,496
Issued for cash on exercise of agent's options	<u>270,000</u>	<u>27,000</u>
Balance, December 31, 1996	4,470,000	321,496
Issued for cash on exercise of options	<u>270,000</u>	<u>27,000</u>
Balance, December 31, 1997	4,740,000	\$ 348,496

(c) Share options:

The Company has a share option plan for its directors and officers and has granted options to purchase 150,000 common shares at a price of \$0.10 per share until June 17, 1999 and 250,000 common shares at a price of \$0.19 per share until December 16, 2002.

4. Income taxes:

The differences between the expected income tax provision based on the combined federal and provincial statutory income tax rate of approximately 44.6% and the amount actually provided are as follows:

	1997	1996
Expected income taxes	\$ 50,417	\$ 41,945
Alberta Royalty Credit	(11,870)	(12,778)
Non-deductible Crown payments	19,343	17,400
Resource allowance	(19,324)	(18,400)
Benefit of unrecognized tax losses	(38,566)	(28,167)
	\$ -	\$ -

At December 31, 1997, the Company has resource tax pools of \$ 475,000 and share issue costs of \$29,000 available to apply against future years' taxable income.

5. Fair value of financial assets and liabilities:

The carrying value of the accounts receivable, bank loan and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity or demand nature of the instruments.

6. Related party transactions:

A corporation controlled by an officer of the Company participates in certain farmout, participation, joint venture and other similar agreements with the Company.

CORPORATE INFORMATION

Directors

J. Dawn Browne,
Calgary, Alberta (1)

Robert S. Clegg,
Calgary, Alberta (1)

Thomas J. (Jack) Hall,
Calgary, Alberta

Bonnie C. Hall-Staples,
Calgary, Alberta (1)

(1) Audit Committee

Officers

Thomas J. (Jack) Hall
President

Michael H. Smith
Vice President, Exploration

Bonnie C. Hall-Staples
Secretary-Treasurer

Head Office

Suite 1250 Sun Life Plaza III
112 - 4th Avenue S.W.
Calgary, Alberta
T2P 0H3

Telephone: (403) 294-7250

Fax: (403) 294-7272

Auditors

KPMG
Chartered Accountants
1200 Bow Valley Square Two
205 - 5th Avenue S.W.
Calgary, Alberta
T2P 4B9

Registrar and Transfer Agent

Montreal Trust
6th Floor, 530 - 8th Avenue S.W.
Calgary, Alberta
T2P 3S8

Solicitors

Howard, Mackie
1000 Canterra Tower
400 - 3rd Avenue S.W.
Calgary, Alberta
T2P 4H2

Banker

Bank of Montreal
350 - 7th Avenue S.W.
Calgary, Alberta
T2P 3N9

Stock Exchange Listings

The Alberta Stock Exchange
Trading Symbol Common Shares: NNT

